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SUBJECT: RUSSIAN CONSTRUCTION SECTOR NGO EXPLAINS HIGH
HOUSING PRICES

REF: A. MOSCOW 1450
[1](#)B. MOSCOW 1501

Summary

[1](#)1. (SBU) Numerous reasons have been cited for Russia's lack of affordable housing, an issue of increasing importance for the country's new government. Continuing our series of cables on the topic, Econoffs met with Vladimir Ponomarev, Vice President and Head of Housing and Mortgage Finance at the Russian Builders' Association (ASR). Ponomarev told us that the construction industry had failed to meet rising demand for affordable housing because of the lack of construction materials and labor, excessive profit margins, barriers to new entrants to the sector, and limited financing options for infrastructure development. Ponomarev argued that the sector would take a long time to self-adjust and that government action was needed. End Summary.

Housing Prices Beyond Most Russians' Reach

[1](#)2. (SBU) Ponomarev said the ASR is a non-profit NGO aimed at solving a range of issues in Russia's construction industry. It represents more than 500 members working in construction, insurance, real estate, banking, and mass media and also maintains close links with relevant governmental committees. The ASR's latest efforts have focused on the construction industry's underdevelopment, and in particular the lack of housing stock and sky-rocketing home prices.

[1](#)3. (SBU) According to Ponomarev, there are a number of factors that account for rising housing prices. On the demand side, many Russians received homes for free during privatization in the early 1990's. However, much of this housing was poorly constructed and has further deteriorated with time and neglect. He agreed with statistics we cited that approximately two-thirds of Russia's total housing stock needs renovation and that nearly the same percentage (60 percent) of Russians are in need of better housing.

[1](#)4. (SBU) Ponomarev said that in the face of this rising demand, the supply response from the industry has been inadequate. Last year, total housing construction was only 700,000 units, enough for only 1-2 percent of Russian families. Ponomarev said that the supply response has been inhibited by a limited supply of construction materials and qualified labor. These shortages have increased construction costs, limiting new construction and driving up housing

prices.

¶15. (SBU) Ponomarev told us that the limited supply and high cost of construction materials and labor were especially problematic for new businesses to overcome. Add to these impediments the usual bureaucratic and costly obstacles associated with starting a new business in Russia, and it is clear why new housing construction has lagged behind demand.

¶16. (U) Ponomarev told us that the imbalance between housing supply and demand has led to an average real estate price increase of 26 percent annually nationwide since 1999. However, another contributing factor to rising home prices, according to Ponomarev, is the excessive profit margins charged to the home buyer, ranging from 60-150 percent in Moscow and 30 percent in the regions for the residential construction business as a whole) including investors, developers and construction companies.

¶17. (SBU) In addition, Ponomarev said the lack of long-term financing options available to developers to cover their increasing costs further contributes to the lack of supply of new housing. In particular, he noted that lack of available land near city centers was driving new developments further out into the countryside where basic infrastructure, roads, sewers and the like was non-existent. Developers had to create the infrastructure from scratch. While they ultimately passed the costs on to the home buyers, further driving up prices, the lack of financing options to build this infrastructure significantly raised the amount of start up capital needed.

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What is to be Done

¶18. (SBU) Ponomarev said he expected the problem of rising prices to worsen with continued economic growth and rising incomes, which would further stoke demand. While market solutions were preferable, the sector clearly needed a jump-start from the government to respond to this demand.

¶19. (SBU) Ponomarev said the government should intervene to bring down costs, for instance by making long-term financing and land more available and by developing needed infrastructure. Absent this intervention, it was difficult to predict how long it would take for market forces to correct the imbalance between housing supply and demand, and thus to bring housing prices into the range that the average Russian could afford.
RUSSELL